

Investing in Clean Energy

The Challenges and Opportunities

Mike D'Antonio, Public Policy
PNM Speakers Bureau
Four Corners Air Quality Task Force

Overview

- Renewable Energy
 - PNM Resources Leadership in Environmental Sustainability
 - New Mexico Renewable Portfolio Standard
 - Challenges and Opportunities Presented by Renewables
 - What the Industry Needs

PNM Resources

New Mexico

- Largest provider of natural gas and electricity
 - 481,000 natural gas customers
 - 426,000 PNM electric customers
 - 49,500 Texas-New Mexico Power electric customers in southern NM
 - Ownership in 6 power plants
 - 78 wholesale customers



PNM Resources

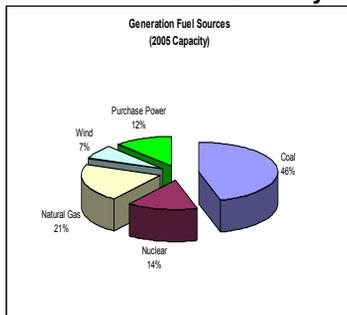
- **Texas**
- Serve in deregulated and regulated markets
 - Texas-New Mexico Power
 - 210,000 T & D customers
 - First Choice Power
 - Retail Electric Provider
 - 84,000 customers
 - 146,000 legacy "Price to Beat" customers

PNM Resources

- **Ownership in three coal-fired plants**
 - San Juan Generating Station
 - Four Corners Power Plant
 - Twin Oaks Power Plant (TX)
- **Own and operate four gas-fired plants**
 - Afton Generating Station
 - Reeves Generating Station
 - Luna Generating Station
 - Lordsburg Generating Station
- **Ownership in Nuclear Power**
 - Palo Verde Nuclear Generating Station Units 1, 2, 3 (AZ)
- **Purchased Power**
 - NM Wind Energy Center
 - Delta Station



PNM's Portfolio Diversity



Renewables in New Mexico

➤ New Mexico Renewable Portfolio Standard

- Regulatory Action
 - Rule 572, December 2002
- Legislative Action
 - Renewable Energy Act of 2004

Renewables in New Mexico

➤ New Mexico Renewable Portfolio Standard

- Energy Requirement
 - 5% by 2006, 11% by 2011
 - PNM met in 2006, need additional resources by 2009
- Reasonable Cost Threshold
- Delivery in New Mexico

Opportunities from Investing in Clean Energy

Environmental Sustainability Path

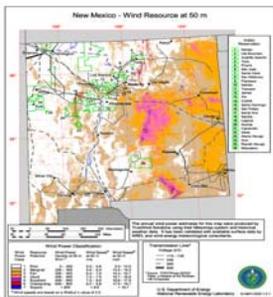
- **PNM Resources Board of Directors**
 - Adopted corporate sustainability policy in 2004
 - Take environmental, social and economic impacts into consideration in every business decision
 - Established 5-year goals
 - Become national leader in renewable energy
 - Use 15 to 20% less water per MWh than 2002 level
 - Reduce waste streams by 20%
 - Emit 15% less sulfur dioxide, 15% less nitrogen oxide, 7.5% less particulates per MWh than 2002 levels and 7% less carbon dioxide per MWh than 2003 levels
 - Considering new goal on energy efficiency

NM Wind Energy Center

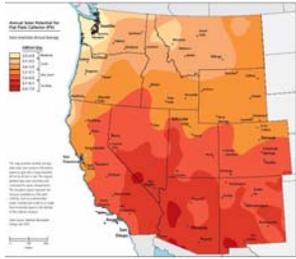


- PNM signed wind agreement in fall 2002 prior to RPS
- 204 megawatt plant near House, New Mexico
- Owned and operated by FPL Energy
- 4th largest in the U.S.
- All power purchased by PNM
- Among largest in world
- More than 10,000 customers support Sky Blue program

New Mexico's Wind Potential



Solar Potential in the West

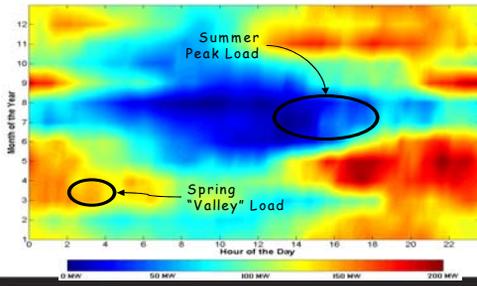


The Challenges of Investing in Clean Energy

Some Challenges

- Current & future costs
- Cost recovery
- Reliable/dispatchable resources
- Available incentives
- Access to transmission
- Integration into existing system
- State preference

Managing Wind Energy



Additional Renewables at PNM



In 2006 PNM:

- Offered incentives for customer-owned solar photovoltaic systems
- Issued RFP for additional renewable resources
- Has entered into a PPA for a 32 MW biomass facility for the 2008/2009 timeframe and is considering adding concentrated solar power
- Added 25 kW solar photovoltaic generation
- Continued purchase of all energy from NM Wind Energy Center

Energy Efficiency and Demand-Side Management (DSM)

Energy Efficiency and DSM Milestones

PNM gas efficiency programs launched Feb of 2006

- Additional gas programs to be filed with PRC by year end 2006
- First suite of electric energy efficiency programs to be filed by January 31, 2007 for both residential and commercial customers
- Target approval by PRC and available to customers mid 2007

PNM issued a DSM RFP in May of 2006

- PNM working with two winning responders on contract issues
- Projects will be including in Jan 31, 2007 PRC filing
- Programs designed to reduce electric peak demand through controlling various customer loads like air-conditioning

The Future of Renewables

Future of Renewables in NM

- Future Renewable Portfolio Standard Activity
 - Reconsideration of reasonable cost thresholds
 - Possible 15% to 20% RPS requirement to be introduced in the 2007 New Mexico legislative session
 - Potential for federal RPS

Future of Renewables at PNM

- Future Resources
 - Renewables are just part of the picture
 - Cost recovery and technology development is still key
 - Diversity still critical for cost, reliability and security
 - Demand side management/energy efficiency must be considered a valuable resource

Future of Renewables Nationally

- Climate change and other environmental regulatory/policy will drive demand for renewables
 - Renewables are expensive
 - Cost recovery is essential
 - Technology development needs to continue
 - What the industry needs
 - Private/public sector collaboration
 - Renewable energy credits
 - Policies that encourage long-term planning and investment
 - Innovative renewable portfolio standards
 - Policies that reflect how energy markets operate
